

# CASES FOR PART

## 2

### CASE 2A BIZLAND, INC.

BizLand, Inc., was founded by Ravi Agarwal in 1997 as a provider of online resources for small businesses and was his second start-up in only six months. His first venture, an online Web site selling movie videos, was shut down shortly before its planned debut. “While we were in the process of launching the site and doing competitive research,” Ravi explained, “we found out that reel.com had just been funded, and they were offering our potential distribution partner ‘big bucks’ to sign an agreement with them instead.”

Despite the video site’s short-lived existence as a bona fide company, the development process had yielded many dividends for Ravi. It had provided him with an opportunity to experience the power of e-commerce first-hand, and more importantly had taught him what types of electronic “attractions” genuinely appealed to online customers. “When I founded my next start-up, BizLand, Inc.,” Ravi said, “I knew I had read the market correctly this time. The Internet site really took off, and almost immediately began attracting tons of [useful] online traffic. The customers loved it.”

Like many nascent businesses, BizLand, Inc. (known as BizLand.com through the end of 2000) encountered some potentially fatal incidents in its first few months of operation. Ravi categorized them in the areas of profitability, customer relations, staffing, and growth:

Source: Boston College Professor Gregory Stoller prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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We originally launched the company as a credit card processing business. It was re-launched in January 1999, when we added free Web-hosting services,” he said. “Through Web hosting we could acquire customers at a cheaper cost, and use the site as a feeder for our higher margin credit card business. However, we later discovered many of these services, while popular with our customers, were inherently unprofitable to us. They were also a constant drain on cash. My economic decision to eliminate them cost me a great deal of credibility with our newly formed client base.

While the site’s revenue was enough to cover our rent and operating expenses, after 1 1/2 years, my co-founder left to take “a real job.” He said he needed to receive a dependable salary. I was afraid about the effect on the rest of the staff. They were mostly being “paid” in stock, and had no guarantee that they could ever cash out.

Even though I knew I had discovered a successful business model, I also wasn’t quite sure what I needed to do to move the company forward. Growth would be crucial if we wanted to remain in business. The only thing I *was* certain about was that we had great people working for us. It would be their contributions, not the technology, that would ultimately bring us to the next level.

In January 1999, five people strong, BizLand, Inc., was beginning to gain some financial strength and market share. They quickly outgrew their office space, and would be forced to move a third time in the next six months in order to keep everyone in the same building. Concurrently, in an ongoing attempt to stem the company’s “burn rate” of cash, Ravi also began making presentations to angel investors.

On June 1, 1999, Ravi achieved his funding objective. The investors liked what they saw and committed first round financing of \$1.3 million. BizLand, Inc., could now survive for at least another six to nine months. (Refer to Gregory Stoller’s case entitled *BizLand, Inc.: Navigating through the Land of E-Business*,

for an in-depth discussion of the company's continued changes to its business strategy, competitive threats, and its plans to become profitable, available from Boston College.)

One month later, BizLand, Inc., went through yet another strategic shift. Ravi explained:

We had matured beyond our Web hosting roots. By working with small business customers directly, I realized they had many more needs than simply Web hosting and credit card processing. They wanted help with the other aspects of their businesses, and we decided to tailor our site's offering to their market. The [small business] segment was the fastest growing sector of the U.S. economy, and we thought it offered a lot of potential.

BizLand, Inc., condensed its business into two main service lines: (1) Marketing advice for small businesses and (2) a co-operative market, offering products such as payroll and telephone at wholesale prices. In addition to those listed in Exhibit 1, BizLand, Inc., also sold books and computers.

## BUILDING THE TEAM

With the infusion of first-round funding completed, Ravi could once again focus on strategy and business development. A key success factor in both of these areas was executive staffing. While he was confident in his abilities to continue growing BizLand, Inc., on his own, he was also aware of the potential opportunity costs associated with the status quo. As Ravi explained,

I wasn't under any particular pressure from the Board of Directors to hire a CEO, but I knew it was in the best interests of the company. Competition was becoming more intense in the market from well-funded ventures—companies like AllBusiness and BigStep had come out of nowhere—and I realized that if we wanted to reach our strategic goals, and eventually become profitable, I couldn't do it all by myself fast enough to succeed.

The most frustrating part of the decision centered on speed and control. I didn't want to give up control of the venture I had started and run for so long, but knew we couldn't "get there" without some professional management installed.

On the advice of the Board, Ravi retained John Hoagland III, a partner, and head of the North American Technology Practice at Whitehead Mann Pendleton James (formerly Pendleton James Associates). [See Exhibits 2 and 3]. They met several times to discuss BizLand, Inc.'s future, intellectual requirements

for the position, and ideal personality traits. As John explained,

This was not your typical CEO search, since there were only a handful of other people in the company, and it was still operating from its sole round of funding. It was crucial to find someone who was a strong leader, and could move the company forward at a fast, but not uncontrollable rate. People had to like the CEO, and want to follow him. Up to now, all of the staff had done nearly everything on its own. Ravi also had to feel comfortable that he was not giving up control, and potentially throwing away all of his hard work.

## FINDING THE PERFECT CANDIDATE

In addition to the traditional attributes one looks for in the perfect CEO, such as business acumen and breadth of experience, John and Ravi decided that a large part of the selection criteria should also focus on the candidate's interpersonal skills. "Soft" qualities would be rated on an equal level with professional accomplishments, given the extremely young age of the business.

After several meetings, they arrived at the following list of "must haves" for the position:

- Extensive direct marketing experience
- Significant knowledge of B-to-B (business-to-business), ideally with a small company focus
- Management experience in a multi-tier distribution channel
- Comfort, and a demonstrated record of accomplishment with equity fund-raising
- In-depth knowledge of "Internet economics" and the emerging "new" business economy
- Experience in high-tech companies, preferably software
- Strong educational background
- Exceptional leadership skills

Ravi and the Board were prepared to offer a competitive financial package. The base salary would be "well into the six figure range," and contain the additional incentive of an almost 30 percent cash bonus based on company and individual performance. The amount of the bonus would be determined by Board review. The CEO would receive slightly over 10 percent of the company's outstanding shares at the time, with a four-year vesting period, and anti-dilution protection.

There would not be an employment contract. Neither Ravi, the Board, nor John, believed this level of

**EXHIBIT 1 Menu of BizLand, Inc.'s Original Online Services (as of January 1999)**

<b>Product</b>	<b>Description</b>	<b>Launched</b>	<b>Partner</b>
Animated Ad Banners \$25	Create online banners	Dec-99	Animation.com
Banner Network	Purchase banner ad impressions on member sites	Dec-00	BizLand
BizBuilder	Web site editing tool	Oct-99	BizLand
BizLand Plus (3 months)	Disable Ads, 30 MB more space, POP accounts	Jan-99	BizLand
Browser Compatibility	Check if browsers are compatible to your Web site	Jul-99	NetMechanic
Counter	Place a counter on your site	Jun-99	BizLand
Dead Links	Find Dead Links on your site	Jul-99	NetMechanic
Dial-up ISP	Internet dial-up service	Sep-00	Laserlink
Direct Mail Quotes	Obtain quotes, find a vendor; offline mail campaign	Apr-00	DMQ
Directed Traffic	Pay for positioning on GoTo.com	Dec-99	GoTo.com
Disk usage	Check how much disk space is left	Jan-99	BizLand
Domain Name Parking	Host a domain name	Jan-99	BizLand
E-Commerce Manager Bundle	Create online catalog and storefront	Jan-00	ShopSite
E-Commerce Pro Bundle	Create online catalog and storefront	Jan-00	ShopSite
E-Mail List Manager	Set up an E-mail List	May-00	BizLand
Email2Friend	Promote site through e-mail from visitors	Jun-99	BizLand
Fax2Friend	Let visitors to Web site fax page to their friends	Apr-00	J2
Faxes for Free	Send faxes for free within U.S.	Jul-99	J2
Freedom Membership	Host a business Web site and more—do-it-yourself	Jan-99	BizLand
Guest Book	Receive feedback from visitors	Jun-99	BizLand
HTML Syntax	Check your HTML for errors	Jul-99	NetMechanic
Lead Generation Service	Get qualified sales leads	Dec-99	Respond.com
Lifetime Email	Free e-mail address (Web-based)	Jul-99	CommTouch
Load Time	Check how long it takes to load your site	Jul-99	NetMechanic
Merchant Account	Account to accept credit cards	Jan-00	Heartland
Meta Tag Generator	Create Meta Tags, optimize search engine success	Mar-00	BizLand
More Space (3 months)	Purchase additional 20 MB of space	Jan-99	BizLand
My BizLand	Customized home page with news, stocks, etc.	Sep-00	iSyndicate
Online Coupon Service	Place coupons on heavily trafficked sites	Jun-00	eCoupons
Online Customer Service	Provide personal, immediate service to site visitors	Nov-00	HumanClick
Online Meeting Center	Hold meetings and share documents	Mar-00	Webex
Optimize Graphics	Speed up your site, optimize graphics	Jul-99	NetMechanic
Payment Gateway	Process credit card transaction	Jan-00	Signio
Poll Taker	Take polls and gather info from users	Feb-00	BizLand
QuickLink	Create navigation links for Web sites	Mar-00	BizLand
Register Domain	Register a new domain or transfer an existing one	Apr-00	Tucows
Search Engine Ranking	Find where your site ranks on search engines	Mar-00	BizLand
Search Engine Submission—Enhanced	1,300 search engines and directories	Dec-00	SiteSolutions
Search Engine Submission—Free	Submit your site to top 8 search engines	Jan-99	BizLand
ShopSite Manager	E-Commerce Package	Jan-00	ShopSite
ShopSite Pro	Pro E-Commerce Package	Jan-00	ShopSite
Spell Check	Check for spelling errors	Jul-99	NetMechanic
Transfer Domain	Register a new domain or transfer an existing one	Jan-99	BizLand
Value Membership	Host a business Web site and more—premium service	Dec-00	BizLand
Visitor Statistics	Check site traffic	Jan-99	Webalizer
Web Site Phone Service	Allows visitors to make free Web phone calls to you	Nov-00	Net2Phone

Source: BizLand, Inc.

**EXHIBIT 2 About Whitehead Mann**

Whitehead Mann, founded in 1976 and floated on the London Stock Exchange in 1997, is a leading international executive search and HR strategy consultancy operating at the highest levels of business leadership. The quality of our people, our strong team culture, and a continuous process of innovation make us unique in the search market. 75% of our business comes from existing clients.

Drawing upon in-house expertise across a range of sectors and functional disciplines, the *E-Business team* works to identify and recruit functional e-business executives for mainstream businesses using the Internet to develop new channels to market, and also executive teams for “pure play” Internet companies.

Recent work for classic corporates includes a Managing Director Digital for a major media business and a Head of Online Business for a globally renowned personal computer manufacturer looking to aggressively grow its Internet sales channel. We have also worked closely with an international airline on a major e-business recruitment drive, comprehensively mapping the market for Internet-skilled executives and subsequently identifying candidates for a range of senior positions.

Within the “pure play” Internet arena we recruit across all functions including Chief Executive, Human Resources, Chief Technology Officer, Sales, Marketing, and Business Development roles. We have been engaged by two of the biggest names in consumer online services to recruit for their EMEA businesses. Other clients include venture capital-backed businesses, Internet incubators, and e-business start-ups operating in both the business-to-consumer and business-to-business space.

Source: Whitehead Mann.

**EXHIBIT 3 Background of John H. Hoagland III****John H. Hoagland III**

John joined Pendleton James Associates in 1993 with prior experience in general management, human resources, and sales in the employee benefits and software services industries. John was previously with Versyss Incorporated, a \$100 million software and computer services company. He was a General Manager of Versyss-Benchmark Systems in Arlington, Virginia, as well as the company's Atlanta branch. Prior to that, he had served as Vice President, Human Resources and Administration with responsibility for strategic initiatives in manufacturing and end user services, executive and technical recruitment, and training and development.

Before joining Versyss, John worked in sales and marketing in the corporate insurance industry with a focus on employee benefit programs, first with Prudential and then as Group Marketing Executive for Equicor (a CIGNA subsidiary).

John received his B.A. from Principia College. He is an officer and President of the Business Associates Club of Boston. He and his family reside in Dover, MA, where John serves on the Dover-Sherborn Regional School Committee.

Source: Whitehead Mann Pendleton James.

complexity was necessary, given the stage of BizLand, Inc.'s development. Finally, Whitehead Mann would be compensated with a flat fee based on the successful appointment of the candidate.

The following hiring process would be used:

1. John and his company would provide BizLand, Inc., with a universe of potential candidates.
2. John and Ravi would distill this list based on resume quality and years of relevant experience.
3. Candidates passing the resume test would be further screened by John in face-to-face interviews.

4. Recommended candidates would go through a series of interviews with Ravi and individual Board members.
5. The short list would be brought back for final interviews with the entire Board of Directors.

**CANDIDATE PROFILES**

After the mining of Whitehead Mann Pendleton James's database, the screening of hundreds of resumes, and the completion of several face-to-face interviews, four

candidates were presented to Ravi and the Board of Directors. The following background was available on each:

### Candidate #1: Michael Speer

- Undergraduate Education: University of Michigan
- Graduate Education: University of Chicago, MBA
- Professional Certifications: CPA
- Current Position: General Manager, G.E. Capital, Small Business Services Initiative

Prior to receiving his MBA, this 37-year-old candidate worked in the audit department of KPMG. Post-MBA, he joined G.E. Capital in the operations department of the company's vendor finance business. His position involved asset-based lending to large and small companies needing to purchase business equipment (i.e., computers, copiers, etc.). He also acted as a liaison with G.E. Capital's Financing Department to assist his clients with financing.

After three years in vendor financing, Mr. Speer was promoted to G.E. Capital's Commercial Direct business division, with responsibility for developing and implementing programs aimed at aggregating small business purchasing requirements. A typical transaction involves the purchase of telecommunications services in bulk, and then resale directly to his small business clients. He has been active in this role for 11 years, with the past three years spent as the General Manager of the entire division.

### Candidate #2: Robert Barbers

- Undergraduate Education: Culver-Stockton College (Canton, Missouri)
- Graduate Education: Harvard Business School, MBA
- Professional Certifications: CPA
- Current Position: Senior Vice-President, Excel Software

Prior to receiving his MBA, this 42-year-old candidate worked in both New York and Tokyo as a junior consultant for Boston Consulting Group (BCG). Post-MBA, he re-joined BCG and worked as an associate consultant for two additional years. In his next move, he became a macroeconomic and political consultant for a firm founded by former President Gerald Ford. Parlaying his political consulting experience with his successful bid

for Class President at Harvard Business School, he took a leave-of-absence and ran for a congressional seat against the incumbent in his home state of Montana in 1986. Although he won the primary, he lost the general election.

In 1987, he joined Excel Software in a senior position reporting directly to the CEO, and as one of their first one hundred employees. He has remained at Excel for the past 12 years, in a variety of roles ranging from head of strategy to Senior Vice-President of sales. Mr. Barbers was directly responsible for launching the company's international operations, and worked directly with the CEO on the road show that brought Excel public. During Mr. Barbers's tenure, overall sales have increased from \$4 million to \$150 million.

### Candidate #3: Sanjay Gupta

- Undergraduate Education: University of Connecticut
- Graduate Education: Boston College, MBA
- Professional Certifications: CPA
- Current Position: Chief Marketing Officer, egghead.com

Prior to receiving his MBA, this 39-year-old candidate worked in the audit department of Ernst & Young for five years. Post-MBA, he joined Black & Decker as a financial planning and analysis manager. For an additional five years, and as a member of a six-person team, he benchmarked the performance of Black & Decker's products, and made financial and strategy recommendations to senior management. He subsequently joined KPMG, where he worked for another five years as an IT strategy consultant.

His next move placed him back in a financial role, as the controller of a surplus-direct catalog re-seller of computer equipment, called Onsale, Inc. The company's business strategy was to purchase old copies of software and hardware (i.e., Windows 3.1) and then re-sell them via catalog. He increased sales from \$12 million to \$100 million in three years, and was named President of the company.

In Onsale's efforts to raise capital for expansion, they merged with Egghead Software, and formed a new entity, egghead.com. Egghead was in the process of closing its unprofitable retail locations and needed a new distribution channel for its products. Onsale needed cash for the projected growth of its core business, as well as entry

into complementary lines associated with new technology and online auctions. Senior management was reorganized, and executives were hand-selected from both companies to run the new entity. Mr. Gupta was named Chief Marketing Officer, with responsibility for the establishment of direct marketing initiatives and online partnerships. He has been in this role for the past 18 months.

### Candidate #4: Daniel Peters

- Undergraduate Education: Middlebury College
- Graduate Education: Columbia University, MBA
- Professional Certifications: None
- Current Position: General Manger, G.E. Capital, Commercial Credit Card Business

Prior to receiving his MBA, this 39-year-old candidate worked on “ski patrol” for two years, and later joined an architectural firm as the head of marketing and public relations. Post-MBA, he joined American Express, as an analyst for their commercial business travel and traveler check divisions.

Seven years later, Mr. Peters joined G.E. Capital as a senior manager in their commercial credit card business, with responsibilities in product management, direct marketing, co-branding, and alliances. Customers ran the gamut from large and small companies to individual business consumers, and joint venture (branding) partnerships. He has been in this role for five years, with the past two spent as General Manager of the entire division. G.E. Capital has also recently tasked him with launching a new Internet initiative for its commercial card business.

### NEXT STEPS

By the third quarter of 1999, BizLand, Inc., was continuing its pattern of fast growth. The company had well over 50,000 members, and was growing its database by over 500 per day. The capital markets were also in the midst of their own economic expansion, with the Dow Jones Industrial Average at the 11,000 mark, and the NASDAQ index squarely above its psychologically important value of 2,500.

Online business ideas ranging from vitamins (mothernature.com), to pet supplies (pets.com), were being funded *en masse* by the venture capital community. In order to stay in the game, rival firms were regularly

outbidding one another to secure equity in the most promising companies. Non-e-businesses were also in vogue, even in such staid industries as dry cleaning (ZOOTs), and flowers (KaBloom).

At the same time, well-funded competition continued to enter the market, all aimed at servicing small business needs. Ravi knew it would only be a matter of time before some of them became large enough to potentially impact BizLand, Inc.

1 1/2 months had elapsed since the CEO search with John first began. While Ravi certainly didn’t want to rush the process, he knew he couldn’t keep up his intense work pace forever. Among the different projects he was working on, in addition to running the day-to-day operations of the company:

1. *Senior executive staffing:* Vice-Presidents in Business Development, Marketing, and Member Support had to be hired, in order to truly capitalize on the growth being experienced by BizLand, Inc.
2. *Office space expansion:* The company was beginning to run out of office space, as the employee base had grown to over 10 people. Today alone, there were three phone calls from commercial leasing brokers responding to Ravi’s requests.
3. *Equity fund raising:* More equity had to be raised. Based on BizLand, Inc.’s greater-than-anticipated rate of actual expansion, and projected marketing spending, the \$1.3 million risked being utilized far more quickly than anyone had originally anticipated.

While Ravi and John were pleased with the quality of the four candidates, many questions still remained in their minds:

1. Had they compiled an exhaustive list of criteria for their “must haves”? Had some important qualities been omitted? Were all of the items really necessary? If he and John did make changes, how would the four candidates measure up to the revised list?
2. Did the four candidates offer any *real* possibilities? Should they invite any of them for an interview with the entire Board of Directors? Or, even though it would further elongate the process, should Ravi and John begin considering other candidates not previously screened or interviewed?
3. If Ravi had to make a decision today, which of the four candidates should he choose, and why?